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As a follow-up to the NAV report that was sent on February 14, 2020, we wanted to provide some additional information and transparency to help unpack what we recognize are disappointing figures. Below we provide some additional data points, discuss our reasons and plans for reorganization, and share our outlook for the future. We have included a FAQ in response to a number of questions that have been received. In March, we will be traveling to a few cities where our limited partners are located to meet and discuss the Fund and the contents of this letter in more detail. As always, we are thankful and humbled by your trust and investment in our team.

2019 Year-in-Review

In 2019, the cryptocurrency asset class began its recovery from the extended bear market of 2018. Led by bitcoin, which started 2019 with a price per BTC of approximately $3,750 and ended the year at approximately $7,200 per BTC, there were many advances made throughout the blockchain and cryptocurrency industry as companies and protocols were successful in bringing pertinent updates to market. In particular, we saw significant advancements in the areas of scalability, governance, and fiat-to-crypto on-ramps.

Our focus, since Iterative's inception, has been on cryptocurrency mining and optimizing around that operation. We selected the Decred and Sia networks as the focus of our portfolio. Decred for its bitcoin-like characteristics but with an innovative blockchain governance system, and Sia for its disruptive approach to the cloud storage market. Both of these companies are in their earliest stages, which begets tremendous volatility in the market. The two companies' value declined more than 80% each from 2018 to 2019 (as did most "alt-coins"), and 2019 was relatively flat for their price movements in the open market (Decred started and ended around $17). This obviously has impacted the NAV that is shared with investors, but we remain cautiously optimistic that over an extended time frame (rather than quarterly or over a one-year snapshot), both of these networks and mining-as-a-strategy more generally will yield a positive return.

We plan to continue charting a path in the cryptocurrency mining sector and will look to scale up our efforts going forward.

Performance

As of 12/31/19, the trading master fund's portfolio held a cryptocurrency portfolio valued at approximately $1.09 million. As of 12/31/19, the mining master's portfolio held cryptocurrency valued at approximately $1.48 million. At the end of 2019 the mining master fund's portfolio also held mining equipment with a book value (after depreciation) of $2.06 million, of which 62% relates to GPU equipment and supporting hardware, while the remaining 38% represents a split between DCR and SC.

As a percentage of the trading master portfolio, the three largest holdings are:

- DCR[1] - Decred (59%)
- BTC[2] – Bitcoin (13%)
- ETH[3] – Ethereum (13%)

As a percentage of the mining master portfolio, the three largest holdings are:

- DCR – Decred (77%)
- SC[4] – Sia (13%)
- ZEL[5] – Zel (5%)

The major expense incurred by the Fund pertained to the mining master, which absorbed approximately $4.5M in expenses in 2019. Of the $4.5M, approximately $750K went towards hosting expenses and approximately $3.4M came in the form of depreciation to the hardware.

One of the challenges in valuing the Fund's entire portfolio is that we've made a big outlay of cash in return for future production (or generation of mining rewards). This doesn't get factored into the NAV. From our mining activity, we project that we'll generate over 120,000 DCR (we currently hold approximately 70,000) and 200,000,000 SC (we currently hold approximately 150,000,000). This is in addition to the positions we have also mined in Zel, Ethereum, ETC, and RVN.

Re-organization

It has become increasingly apparent that due to the novelty of cryptocurrencies and uncertainty around regulations, that third party service providers will make operating the Fund as a traditional hedge fund more challenging (and increasingly expensive). After the initial closing in 2018, the Fund was required by MG Stover (the administrator of the Fund) to hire three additional service providers if they were to engage as fund administrator: Houlihan Capital (for third party valuation of the mining hardware), Constellation Advisors (acting CFO), and Cohen & Co (tax specialists); this was in addition to MG Stover as fund administrator and Akin Gump as legal counsel. Coordinating among these groups has proven challenging and reporting with any regularity has become an issue – frustrating investors and our management team alike. The lagging quarterly

[1] As of 12/31/2019, DCR had a price per coin of $16.80 per coinmarketcap.com.
[2] As of 12/31/2019, BTC had a price per coin of $7,200 per coinmarketcap.com.
[3] As of 12/31/2019, ETH had a price per coin of $130 per coinmarketcap.com.
[4] As of 12/31/2019, SC had a price per coin of $0.00013 per coinmarketcap.com.
[5] As of 12/31/2019, Zel had a price per coin of $0.03 per coinmarketcap.com

reports (sometimes taking upwards of four months to produce) means that investors don't have reliable information to deduce whether or not they want to redeem from the Fund.

Complicating matters in 2018 was the precipitous drop in the overall market capitalization of all (or almost all) cryptocurrencies asset class, with prices dropping in some cases by as much as 90%. Bitcoin itself dropped from a peak of $20K per coin to $3K per coin. Having invested half of the Fund's assets in mining hardware, its positions became increasingly illiquid, compelling us to declare the mining assets as a special situation investment (i.e., "side pocket) as of the end of 2019, thereby putting all of the mining master fund's assets into a side pocket and therefore disabling Investor's ability to fully redeem. The difficulties associated with the valuation and accounting prompted MG Stover to resign from the engagement as fund administrator. Iterative then hired Triple Leo.

For its part, 2019 was mostly uneventful; the market made tepid attempts at a recovery. We continued to try and optimize the operation and reduce expenditures. However, the costs of the mining operation and fund administration (including audits) has continued to eat away at margins due to the lagging prices of cryptocurrencies (Decred in particular, in which the Fund has a large position) and the rapid depreciation schedule of the mining hardware. We decided in late 2019 and early this year that it would be in the best interest of investors to form a new investment vehicle for those that have a longer time horizon for their investment and liquidate those investors that no longer wish to remain in the Fund but have been stuck due to the placement of assets in a side pocket. It is through this lens, of reducing costs and providing an opportunity for liquidity, that we plan to propose a plan of reorganization for the Fund.

Vision / Outlook

We plan to put these insights into practice in the following way:

1. The new investment vehicle we will soon formally propose to all investors is intended to acquire the mining assets from Iterative Mining Master, LP (both the GPUs and the DCR ASICs) and to operate them for the duration of their hardware lifecycle (which can range from 12 to 36 additional months, depending on the market price). The investment vehicle will stake and lend coins to earn extra rewards/revenue prior to full liquidation, which is anticipated to occur within three years of the mining hardware's obsolescence.
2. The new investment vehicle will use its inventories in proprietary trading strategies, executed with our software partner Etale[6], and based on formulae for rebalancing to arbitrage three mining-related markets: the machine market, the coin market, and the market for hash rate contracts. For brevity, we refer to mining and its related proprietary trading strategies as "proprietary mining."

Please note that this management letter does not constitute an offer to buy or sell any securities, and the plans for the future of the Fund that we have outlined above are subject to a formal restructuring that will be detailed more fully in the coming weeks and must be approved by a requisite amount of investors.

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[6] We are currently unable to execute this strategy under the current fund structure because the mining master fund has the majority of the digital assets and those assets been placed in a side-pocket.

Summary

As we've previously noted, the Fund's investments are better suited for investors that can withstand the full mining period of 24-36 months (or for the duration of the machine's life cycle), wherein we will continue to mine and stake rewards. This a cost-average way of accumulating a position, and we think in doing so during a bear market, we will be positioned well for the next bull run. While it doesn't show up intuitively in the NAV reports, we believe there is a long tail on the Fund's investments which are much better suited as a long-term venture capital style investment (i.e., long term buy and hold) rather than as a hedge fund structure that allows for quarterly liquidity.

Mining is an operationally-intensive strategy that yields first-hand knowledge which is hard to reproduce. Simplifying our structure will enable us to more nimbly monetize what we know about this arcane industry, and build a business that fits the rapidly-growing consumer cryptocurrency marketplace, as well as the expectations of our investors.

Frequently Asked Questions

Q: Based on my recent NAV report, it appears that my holdings are now only worth about ⅓ of my initial investment. Why is that?

A: The NAV can vary widely from a day-to-day, week-to-week, and even intraday basis given the volatility of the market. As an example, this past weekend, the price of BTC dropped from $10,400 to $9,500 and Ethereum dropped from $280 to $240. So, the value of our liquid holdings in real-time are going to be different than what is reported. That said, the NAV is meant to serve as a snap-shot and our accounting reflects the depreciation of mining hardware that was purchased (nearly $7M) and hosting expenses. So, any gains made by the mining master are essentially offset depending on the price of the coin, and thus likely to reflect a loss in the short term.

Q: Is the Fund actively trading

A: The Fund took most of its positions in 2018 while the mining operation was getting situated (i.e., securing colocation space, purchasing hardware, etc.). The rationale for doing so was to get exposure to the asset class in the interim period (which at the time was down more than 50% from ATH) in the event another upswing occurred. We have moved in and out of a couple positions in 2019, but we spend the lion's share of our time optimizing the mining operation.

Q: Why are you re-organizing the Fund?

A: The type of investing we engage in (i.e., mining) and investing in cryptocurrencies, generally, is better suited in a venture capital-style of vehicle or an operating company. We approach our portfolio like investments in early stage start-ups that have public-market liquidity. Given the still-nascent asset class, the mark-to-market valuations will fluctuate wildly, as we have seen. When we initially raised the Fund, we envisioned having new domestic and international investors inject capital into the Fund on a rolling basis (and older investors liquidating periodically). To allow for this flexibility, and for tax efficiency, it required us to have an onshore feeder fund, a domestic feeder fund, a corporate blocker, and two master funds. It is a complex structure, and expensive to maintain as we need to have fund administration for each entity, along with tax and audit preparation for each entity. This is in addition to educating service providers that are applying old precedents to a novel asset class. Our third-party expenses in 2019 were approximately $250,000, and our registration fees in the Caymans are an additional $25,000. Given that we are not inviting new investors to the Fund, our specialization and focus on the mining operation, and longer anticipated holding period, we believe it to be in the best interest to re-organize the Fund by simplifying the structure as a mining operating company. In doing so, we will be able to present investors with an opportunity to redeem from the Fund if they no longer wish to continue with their investment in Iterative Capital.

Q: In one of your letters, you mentioned combining the Fund with another of Iterative Capital Management's subsidiary companies (Iterative OTC, LLC). Is that still part of the plan?

A: No, we will not be combining the Fund with the OTC business. Doing so would be complex from a valuation standpoint and would expose investors to a different set of risks and liabilities.

Q: When do you expect the re-organization to be complete?

A: Our outside counsel will be circulating documents in the upcoming week and we expect to have the re-organization complete by the end of Q1 2020 and payment to those that redeemed from the Fund in the first half of April 2020.

Q: What will it take for my initial investment to deliver a positive return?

A: We are currently about mid-way through our mining period (which is typically 24-36 months). Our mining operation wasn't fully up and running until late 2018 / early 2019. So, with that, the NAVs you have been seeing don't take into account future mining rewards that we will generate. We also earn additional rewards by staking. By the end of the mining period, we anticipate accumulating a large number of coins in the networks we have selected. In venture capital terms, if Decred reaches $100 per coin (it's currently around $20, and has an ATH of $126), it would return the Fund by itself.

Q: Why is the NAV for domestic investors more than the NAV for international investors?

A: There are expenses incurred at the offshore feeder level that do not apply to the domestic investors. Those fees include CIMA registration, having a Cayman Islands registered agent, and annual report filings.